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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

March 22, 2012

Mr. Ron Wheeler, Executive Director
South Dakota Science & Technology Authority
630 East Summit Street
Lead, South Dakota 57754

We have completed our audit of the financial statements for the South Dakota Science & Technology Authority for the year ending June 30, 2011.

Enclosed are twelve copies of the report. If we can be of further service to you, please contact us.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:RJC:tjk

Enclosure

cc: Governor Dennis Daugaard

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

AUDIT REPORT

Fiscal Year Ended June 30, 2011

SOUTH DAKOTA SCIENCE & TECHNOLOGY AUTHORITY
AUTHORITY OFFICIALS
June 30, 2011

Board of Directors:

Casey Peterson, Chairman
Dana Dykhouse, Vice-Chairman
Pat Lebrun, Secretary/Treasurer
Thomas C. Adam, Member
Dr. Ani Aprahamian, Member
Paul Christen, Member
Dr. Charles Shank, Member

Executive Director:

Ron Wheeler

Chief Financial Officer:

Nancy Geary

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
South Dakota Science and Technology Authority

We have audited the financial statements of the South Dakota Science and Technology Authority (Authority) a business-type activities component unit of the State of South Dakota, as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated March 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

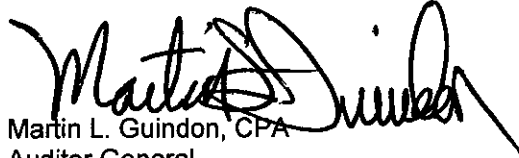
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not

an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate communication dated March 15, 2012.

This report is intended solely for the information and use of management, members of the South Dakota Legislature, federal awarding agencies and pass-through entities, state granting agencies and the governing board and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

March 15, 2012

SCIENCE AND TECHNOLOGY AUTHORITY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

The prior audit report contained no written audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Findings:

There are no written current audit findings to report.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

Board of Directors
South Dakota Science and Technology Authority

We have audited the accompanying financial statements of the South Dakota Science and Technology Authority (Authority), a business-type activities component unit of the State of South Dakota, as of and for the fiscal year ended June 30, 2011 as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Science and Technology Authority as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 6 through 10 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority. The Schedule of Operating Expenses listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Martin L. Guindon", with a stylized, cursive script.

Martin L. Guindon, CPA
Auditor General

March 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

This section of the South Dakota Science and Technology Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2011 (FY 2011). This analysis should be read in conjunction with the Independent Auditor's Report, financial statements, and notes to the financial statements.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose of converting its acquired Homestake Mine property into an underground science and engineering laboratory. The property was donated to the Authority by Barrick Gold in May 2006.

The activity of the Authority is accounted for as a proprietary fund type. The Authority is a component unit of the State of South Dakota and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

Included in the financial statements presented is a current year comparison to prior year balance sheet summary, revenue and expense summary, and capital assets. Further reports reflect current year detailed statement of net assets, statement of revenue, expense and changes in net assets, cash flow, and schedule of operating expenses. Comparisons of current year to prior year are important to display increases and decreases in various elements of the financial reports for the Authority. Current year detailed reports provide significant detail for statement of net assets, revenues, expenses and cash flow for the Authority.

FINANCIAL HIGHLIGHTS:

- Total assets at year end decreased to \$97,275,970.
- Current and Other Assets decreased by \$9,600,112, which is primarily due to the reduction of cash held by the State Treasurer on behalf of the Authority.
- Capital Assets increased by \$2,949,478. Page 8 details the major capital asset additions. Furthermore, page 18 summarizes the changes in capital assets by the major categories.
- Total liabilities at year end increased to \$2,211,277, primarily due to an increase in number of employees and the corresponding amount of leave accumulated and outstanding at the end of the fiscal year.
- Total net assets at year end decreased to \$95,064,693.
- Total restricted net assets decreased to \$33,013,064, due to the reduction of cash held by the State Treasurer on behalf of the Authority.
- Unrestricted net assets increased to \$5,485,953 primarily due to receiving \$5,400,000 of unrestricted funds from the State of South Dakota. Approximately 50% of these funds were used during the year for operations. The other 50% will be used in the next fiscal year for the same purpose.
- Charges for services increased to \$1,008,196, primarily due to an increase in the number of staff related to the cooperative agreement with South Dakota School of Mines & Technology for employee services to further the development of planning for the underground and surface laboratories. Revenue from Homestake for the treatment and discharge of their water has also increased. The Authority treated 227,527,000 more gallons of their water in this fiscal year compared to last year.
- Capital Grants and Contributions decreased to \$7,398,604 (down approximately \$12,613,455 from the prior year). The majority of the revenue received in this category last year was from the \$20,000,000 of restricted funds from Sanford. We did not receive any additional funds from Sanford. We did, however, receive \$6,000,000 from the State of South Dakota and a small HUD grant in the amount of \$389,600. Further funding was received in the amount of \$1,006,666 as a National Science Foundation sub-award through the University of California Berkeley (the beginning of a \$4,000,000 award from June 2011 – September 2012). A small additional sub-award of \$2,338 was received through Lawrence Berkeley National Lab from Department of Energy Funds.
- Earnings on investments were reduced to \$927,783 compared to \$1,960,465 in 2010. This decrease was mainly due to decreased principal.

- Total expenses for the Authority were \$16,303,717 which was an 18.5 percent increase from the previous year. This increase was mainly due to increased staff and contracted services. Of this \$16,303,717 the major expenses were for personal services – 49.7 percent, operating expenses – 27.2 percent, and contractual services – 15.9 percent.
- The change in net assets for the year was \$(6,852,054).

FINANCIAL STATEMENT ELEMENTS:

NET ASSETS

	2011	2010	Dollar Change	Percent Change
Current and Other Assets	\$ 40,710,294	\$ 50,310,406	\$ (9,600,112)	-19.08%
Capital Assets	56,565,676	53,616,198	2,949,478	5.50%
Total Assets	97,275,970	103,926,604	(6,650,634)	-6.40%
Long-Term Liabilities Outstanding	213,814	148,969	64,845	43.53%
Other Liabilities	1,997,463	1,860,888	136,575	7.34%
Total Liabilities	2,211,277	2,009,857	201,420	10.02%
Net Assets:				
Invested in Capital Assets	56,565,676	53,616,198	2,949,478	5.50%
Restricted	33,013,064	46,329,719	(13,316,655)	-28.74%
Unrestricted	5,485,953	1,970,830	3,515,123	178.36%
Total Net Assets	\$ 95,064,693	\$ 101,916,747	\$ (6,852,054)	-6.72%

CHANGE IN NET ASSETS

	2011	2010	Dollar Change	Percent Change
Revenues				
Program Revenues:				
Charges for Services	\$ 1,008,196	\$ 717,028	\$ 291,168	40.61%
Miscellaneous	117,080	0	117,080	100%
Capital Grants and Contributions	7,398,604	20,012,059	(12,613,455)	-63.03%
General Revenues:				
Investment Earnings	927,783	1,960,465	(1,032,682)	-52.68%
Total Revenue	9,451,663	22,689,552	(13,237,889)	-58.34%
Program Expenses:				
Science and Technology Authority	16,303,717	13,754,382	2,549,335	18.53%
Total Expense	16,303,717	13,754,382	2,549,335	18.53%
Change in Net Assets	(6,852,054)	8,935,170	(15,787,224)	-176.69%
Net Assets-Beginning	101,916,747	92,981,577	8,935,170	9.61%
Net Assets-Ending	\$ 95,064,693	\$ 101,916,747	\$ (6,852,054)	9.61%

By June 30, 2011, the Authority had invested \$56,565,676 in a broad range of capital assets, including computer equipment, land, buildings, improvements to infrastructure, and the underground, and various machinery, and equipment. This amount represents a net increase (including additions and deductions) of \$2,949,478, or 5.5 percent, over the last year.

CAPITAL ASSETS (Net of Depreciation)

	2011	2010	Change
Improvements	\$ 24,178,508	\$ 22,598,150	\$ 1,580,358
Underground	16,612,749	11,959,447	4,653,302
Buildings	6,344,464	6,490,217	(145,753)
Computer Equipment	221,685	267,949	(46,264)
Equipment	5,160,439	5,298,509	(138,070)
Construction in Progress	726,213	4,723,057	(3,996,844)
Land	1,534,038	1,534,038	0
Infrastructure	1,601,854	543,738	1,058,116
Furniture	60,433	65,611	(5,178)
Archive Material	70,000	70,000	0
Auto	55,293	65,482	(10,189)
Total Capital Assets	\$ 56,565,676	\$ 53,616,198	\$ 2,949,478

This year's major capital asset additions included:

Purchased Capital Assets:

- S300 Bobcat Skidsteer Loader
\$33,031
- Saphymo Radon Monitor
\$15,029
- LT – 210 LHD (Long Haul Dump)
\$195,000
- Shotcrete Mixing Auger
\$18,450
- Chemical Grout Machine
\$5,500
- Computer Equipment – PLC Mine Monitor Equipment
\$22,211
- Electric Air Compressor (125HP)
\$18,515
- (2) 8 Ton Underground Locomotives
\$260,000
- LT – 350 LHD (Long Haul Dump)
\$230,000
- Telephone/Data System Upgrades
\$33,924
- John Deere Angle Broom
\$5,925

Improvements (Including Current Year Additions and Projects from Improvements in Progress):

- Ross Dry Building Improvements
\$243,727
- Grizzly Gulch Decant Pipeline
\$1,060,809
- Power Upgrades (Including fiber optics, communications, and pump system upgrades)
\$239,621
- Yates Education & Outreach Building Improvements
\$214,711
- Underground Excavation and Mitigation Improvements
\$4,653,302
- Underground Davis Campus Shotcreting Improvement
\$900,082
- Majorana Campus Shotcreting Improvement
\$268,602
- Yates Administration Parking Lot Resurfacing
\$259,641
- Ross Portable Water Line
\$24,810

LONG-TERM DEBT

At the year-end, the Authority had \$213,814 in other long-term obligations. This is an increase of 43.53 percent as shown below.

	2011	2010	Total Dollar Change	Total Percentage Change
Compensated Absences	\$ 213,814	\$ 148,969	\$ 64,845	43.53%

The Authority is liable for the accrued vacation leave payable to all full-time employees. In addition, the Authority is liable for a portion of the earned sick leave of employees who have been employed for seven consecutive years. The increase is due to an increase in number of employees and the corresponding amount of leave accumulated and outstanding at the end of the year.

ECONOMIC FACTORS

- After the Homestake Mine site was selected by the National Science Foundation (NSF) on July 10, 2007, as the preferred site for the proposed national Deep Underground Science and Engineering Laboratory (DUSEL), Lawrence Berkeley National Laboratory and the South Dakota Science and Technology Authority negotiated a Memorandum of Understanding (MOU). This MOU outlined collaborative activities that will be necessary to carry out the technical design development program agreement to develop the former Homestake Mine into the DUSEL. The MOU defined four phases of this development.

Phase 1: Rehabilitation, Re-entry and Maintenance Actions for Mining-to-Labs Conversion.

Phase 2: Early Implementation Program for Science and Engineering Laboratories.

Phase 3: Re-entry and Access to Deep Levels below 4850'.

Phase 4: DUSEL Science and Engineering Laboratories.

- The DUSEL Design Team's proposal for re-entry to continue to the 7400' level has been rejected by the National Science Foundation due to the costs involved. Thus the DUSEL (Deep Underground Science and Engineering Laboratory) concept was rejected. The current vision of the Department of Energy (DOE) proposes science labs at the 800' level and at the 4850' level in the recently excavated Davis Campus. The design team has adopted the evolving vision of Lawrence Berkeley National Laboratory and the DOE into the Sanford Underground Research Facility (SURF).
- The Authority's fiscal year 2011 capital budget provided for spending \$3,903,075 for continued mine re-entry, water removal, and infrastructure rehabilitation. Another \$9,142,641 was budgeted for the Science Implementation Program for various experiments and engineering laboratories. Total budgeted dollars for these projects was at \$13,045,716. Actual expenditures were \$6,303,211. Additionally, an operations budget of \$13,590,473 had been provided for to manage and operate the facility. Actual expenditures were \$12,435,850. Thus, the Authority stayed within their budget allotments for the year.
- The Authority's fiscal year 2012 capital budget provides for spending \$16,057,641 for the outfitting of the Davis Underground Campus, along with continued mine re-entry and infrastructure rehabilitation. Upon completion of the Davis Campus project, Early Science groups will begin occupying the Davis Underground Campus to perform various experiments. Other significant projects include steel, studdle, and lacing replacement in the Ross Shaft, rope rescue safety equipment, power and communications distribution upgrades for the Davis Campus, upgrades to shaft conveyances, as well as underground hazard mitigation projects. Funding for these projects will come primarily from the T. Denny Sanford Gift #2 of \$20 million received in December 2009. Amendment #1 and #2 to the Homestake Gift Agreement were signed in June 2010 and October 2011 respectively, whereby it was agreed upon to use \$15 million of the \$20

million stipulated for the Sanford Center for Science Education for the purpose of infrastructure and safety upgrades at the Underground Davis Campus and for replacing steel and other rehabilitation of the Ross Shaft. An additional \$617,000 of Future Funds have been earmarked from the State of South Dakota to aid in these projects. Outfitting is expected to be completed in the first half of 2012. After the outfitting project is complete, scientists will begin setup for experiments in the Davis Underground Campus, particularly in dark matter and neutrino studies. The Ross Shaft rehabilitation will continue with an expected completion date in 2014.

- Additionally, an operations budget of \$13,332,233 has been approved to manage and operate the facility. The National Science Foundation (NSF) provided \$4 million for the period of June 2011 through September 2011 for these operations. The NSF rejected an earlier proposal to fund for a longer period of time as they felt the Department of Energy (DOE) should operate the facility. The DOE has indicated their strong support of the science activities here but lack the funds to support the lab in the last quarter of the federal fiscal year (July-September, 2011). The NSF will continue to fund operations at the lab by up to \$1 million per month until Congress approves a 2012 budget for the Department of Energy. The DOE's 2012 budget includes \$15 million to fund basic operations at the lab.
- The Authority is in compliance with all legal and environmental regulations.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, contact the South Dakota Science and Technology Authority, 630 East Summit Street, Lead, SD 57754.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

ASSETS

Current Assets

Cash in Local Bank and Petty Cash	\$ 400,681
Cash on Deposit with State Treasurer	35,351,372
Accounts Receivable	1,114,553
Interest Receivable	221,983
Prepaid Expenses	793,461
Inventory of Supplies	2,828,244
Total Current Assets	40,710,294

Noncurrent Assets

Land	1,534,038
Underground	16,612,749
Improvements in Progress	726,213
Buildings, Machinery, Equipment and Infrastructure (Net) (Note 3)	37,692,676
Total Noncurrent Assets	56,565,676

TOTAL ASSETS	97,275,970
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LIABILITIES

Current Liabilities

Accounts Payable	1,258,219
Accrued Wages and Benefits	525,429
Accrued Leave and Benefits (Note 4)	213,815
Total Current Liabilities	1,997,463

Long-Term Liabilities

Accrued Leave and Benefits, Net of Current Portion (Note 4)	213,814
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TOTAL LIABILITIES	2,211,277
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NET ASSETS

Invested in Capital Assets	56,565,676
Restricted for:	
Mine Closure	1,311,909
Insurance	1,188,156
Indemnification	10,000,000
Interim Lab-Sanford	7,475,583
Sanford Center for Science Education	13,037,416
Unrestricted Net Assets	5,485,953

TOTAL NET ASSETS	\$ 95,064,693
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The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Operating Revenue	
Charges for Goods and Services	\$ 1,008,196
Miscellaneous	117,080
Total Operating Revenue	1,125,276
Operating Expenses	
Personal Services	8,098,631
Travel	79,429
Contractual Services	2,595,769
Supplies, Materials and Other Operating Expenses	4,436,150
Depreciation Expense	1,093,738
Total Operating Expenses	16,303,717
Operating Loss	(15,178,441)
Nonoperating Revenues	
Grant Revenue	7,398,604
Interest Revenue	927,783
Total Nonoperating Revenues	8,326,387
Change in Net Assets	(6,852,054)
Net Assets -- Beginning of Year	101,916,747
Net Assets -- End of Year	\$ 95,064,693

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

Cash Flows from Operating Activities:

Cash Receipts from Customers	\$ 1,162,853
Cash Payments to Employees for Services	(8,029,732)
Cash Payments to Suppliers of Goods and Services	(6,649,252)
Net Cash Used in Operating Activities	(13,516,131)

Cash Flows from Capital and Related Financing Activities:

Grant Revenue	6,359,450
Purchase of Capital Assets	(5,051,914)
Net Cash Provided by Capital and Related Financing Activities	1,307,536

Cash Flows from Investing Activities:

Interest Earnings	977,367
Net Cash Provided by Investing Activities	977,367

Net Decrease in Cash and Cash Equivalents (11,231,228)

Cash and Cash Equivalents at Beginning of Year 46,983,281

Cash and Cash Equivalents at End of Year \$ 35,752,053

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:

Operating Loss	\$ (15,178,441)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</i>	
Depreciation Expense	1,093,738
Change in Assets and Liabilities:	
Receivables	37,577
Prepaid Expenses	547,292
Inventory of Supplies	(208,730)
Accounts and Other Payables	123,534
Accrued Wages Payable	(60,791)
Accrued Leave Payable	129,690

Net Cash Used in Operating Activities \$ (13,516,131)

Continued on next page.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

Cash and Cash Equivalents:

Cash in Local Bank	\$ 400,631
Petty Cash	50
Cash with State Treasurer	35,351,372
Total Cash and Cash Equivalents	\$ 35,752,053

Non-Cash Capital and Related Financing Activities:

Purchase of Capital Assets Through Accounts Payable	\$ 8,987
Transfer of Fixed Assets to Inventory	\$ 1,051,943
Transfer of Fixed Assets from Inventory	\$ (34,259)

The accompanying notes are an integral part of this statement.

SCIENCE AND TECHNOLOGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The South Dakota Science and Technology Authority (Authority) was created and organized by Chapter 1-16H of the South Dakota Codified Laws. The purposes of the Authority are to foster and facilitate scientific and technology investigation, experimentation, and development by creating a mechanism through which laboratory, experimental, and development facilities may be acquired, developed, constructed, maintained, operated, and decommissioned. The initial focus of the Authority is to support the transfer of the Homestake Gold Mine in Lead, South Dakota for development by the research community to become the world's premier underground science and engineering laboratory; more specifically, the Sanford Underground Research Facility (SURF).

The Authority is a business type component unit of the State of South Dakota. As such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

b. Fund Accounting:

The Authority Fund is accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise fund does not apply any FASB Statements and Interpretations issued after November 30, 1989.

c. Basis of Accounting:

The Authority Fund follows the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

d. Inventory of Supplies:

Inventory of supplies consists primarily of expendable equipment/supplies donated and purchased, not yet in service. Donated inventory of supplies are valued at their estimated fair value on the date of donation. Purchased inventory of supplies are reported at cost using the first-in, first-out basis. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use at a later date.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are

stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses and Changes in Fund Net Assets, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the Statement of Net Assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Authority's financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ all land	----N/A----	---N/A----
Improvements	\$ 5,000	Straight-line	10-50 yrs.
Infrastructure	\$ 5,000	Straight-line	25-50 yrs.
Buildings	\$ 5,000	Straight-line	25-50 yrs.
Automobiles, Furniture, Machinery, and Equipment	\$ 5,000	Straight-line	5-75 yrs.

f. Revenue and Expense Classifications:

In the Statement of Revenues, Expenses and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

g. Cash and Cash Equivalents:

Cash includes cash on hand, demand deposits and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The Authority essentially has access to the entire amount of their cash resources on demand. Accordingly, equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

h. Equity Classifications:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

- i. Application of Net Assets:

It is the Authority's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

- j. Accrued Leave:

The long-term liabilities consist of compensated absences. Compensated absences consist of vacation and sick leave earned. The vacation leave is earned by full-time employees at the rate of 4.62 hours per pay period, increasing to 6.16 hours per pay period after 15 years of service. The vacation leave may accumulate only to a maximum of twice the annual accrual. Upon retirement or resignation, only full-time employees with 180 days of continuous service will be paid for accumulated vacation. Sick leave is earned at the rate of 4.31 hours per pay period. Upon termination, some employees are entitled to receive compensation for a portion of their sick leave balance. Those with seven years of service or more will receive compensation at the rate of 25 percent of their balance up to a maximum of 480 hours.

2. DEPOSITS AND INVESTMENTS

Deposits:

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the audit report of the South Dakota Investment Council.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. None of the Authority's deposits were exposed to custodial credit risk.

Investments:

In general, SDCL 1-16H-18 permits funds to be invested in (a) direct obligations of, or obligations the principal of the interest on which are fully guaranteed or insured by, the United States of America; or (b) obligations of any solvent insurance company or other corporation or business entity if rated in the two highest classifications established by a standard rating service of insurance companies or a nationally recognized rating agency; or (c) short term discount obligations of the Federal National Mortgage Association; or (d) obligations of any state of the United States or any political subdivision, public instrumentality, or public authority of any state of the United States, which obligations are not callable before the principal is to be paid, are fully secured as to both sufficiency and timely payment by, and payable solely from, obligations described in (a). The Authority did not have any investments as of June 30, 2011.

3. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Reclassified*	Increases	Decreases**	Balance June 30, 2011
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,534,038	\$	\$	\$	\$ 1,534,038
Underground Mine	11,959,447	3,582,226	1,071,076		16,612,749
Archive Materials	70,000				70,000
Construction Work in Progress (Note 8)	4,723,057	(4,699,463)	702,619		726,213
Total Capital Assets, Not Being Depreciated	18,286,542	(1,117,237)	1,773,695	0.00	18,943,000
Capital assets, Being Depreciated:					
Automobiles	79,255				79,255
Buildings	7,223,086				7,223,086
Furniture	74,212				74,212
Computer Equipment	335,084		22,211		357,295
Improvements	23,056,429	360,839	1,765,546	(15,914)	25,166,900
Infrastructure	572,623	1,780	1,083,839		1,658,242
Machinery and Equipment	5,801,906	434,023	415,610	(725,380)	5,926,159
Total Capital Assets, Being Depreciated	37,142,595	796,642	3,287,206	(741,294)	40,485,149
Total Capital Assets, Before Depreciation	55,429,137	(320,595)	5,060,901	(741,294)	59,428,149
Less Accumulated Depreciation:					
Automobiles	13,773		10,189		23,962
Buildings	732,869		145,753		878,622
Computer Equipment	67,135		68,475		135,610
Furniture	8,601		5,178		13,779
Improvements	458,279		530,802	(689)	988,392
Infrastructure	28,885		27,503		56,388
Machinery and Equipment	503,397		305,838	(43,515)	765,720
Total Accumulated Depreciation	1,812,939		1,093,738	(44,204)	2,862,473
Capital Assets, Net	\$ 53,616,198	\$ (320,595)	\$ 3,967,163	\$ (697,090)	\$ 56,565,676

*Reclassifications are due to the Authority performing analysis of assets that were previously grouped in construction work in progress as of June 30, 2011. Various improvements were completed or were transferred to equipment placed in service.

**Decreases developed primarily due to transferring equipment out of service and the dismantling of the tsurumi pump system and its subsequent declaration of surplus.

4. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued Compensated Absences- Business-Type Funds	\$ 297,939	\$ 394,178	\$ 264,488	\$ 427,629	\$ 213,815

5. RETIREMENT PLAN

The Authority participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security. The Authority's contributions to the SDRS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$409,363, \$331,469, and \$205,894, respectively, equal to the required contributions each year.

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no insurance claims exceeding insurance coverage during the past three years. During the period ended June 30, 2011, the Authority managed its risks as follows:

Building Structure Coverage:

The buildings and permanent structures owned by the Authority are not covered by commercial insurance.

Personal Property Insurance:

The Authority purchases insurance for the contents of the administration building from a commercial insurance carrier, however, the contents of the other Authority buildings are not insured.

Employee Health Insurance:

The Authority purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance:

The Authority purchases liability insurance for risks related to torts; theft or damage of property; and errors and omissions of public officials from a commercial insurance carrier.

Worker's Compensation:

The Authority purchases liability insurance for workmen's compensation from a commercial carrier.

Unemployment Benefits:

The Authority provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

7. SIGNIFICANT COMMITMENTS, CONTRACTS AND SUBSEQUENT EVENTS

On December 23, 2009, the Authority received \$20,000,000 designated as Sanford Gift #2. Gift #2 was originally established for the Sanford Center for Science Education. Two amendments to the Homestake Gift Agreement were signed in June 2010 and October 2011, respectively, whereby it was agreed to use \$15 million of this \$20 million for the purpose of infrastructure and safety upgrades at the Underground Davis Campus and for replacing steel and other rehabilitation of the Ross Shaft. The restricted balance as of June 30, 2011 includes the \$5 million left to establish the Sanford Center for Science Education. Furthermore, when and if Gift #3 is distributed, an amount equal to the amount of Gift #2 that was redirected to the Underground Davis Campus and infrastructure and safety upgrades will be redesignated for the Sanford Center for Science Education.

In February 2010, the Authority entered into a contract with AmWest, Inc. – Hydro Resources in the amount of \$1,540,000 for the installation and maintenance of a deep level pump system. A subsequent change order increased the contract amount to \$1,782,500 and extended the date through December 31, 2011. The leased pump system is designed to dewater the mine from approximately the 5000' level to approximately the 7800' level. In the agreement, the Authority agrees to make lease payments through December 31, 2011. If the system continues to work as projected the lease would be continued until the dewatering is complete to the 7800' level. The projected date is estimated at late 2013 or early 2014.

In May of 2011, the Authority entered into a contract with Ainsworth-Benning Construction Company in the amount of \$7,952,523 for the outfitting of the underground Davis Campus. The Davis Cavern was enlarged by the Authority's personnel to allow for installation of rooms for experiments and for utilities necessary for future scientific use. This contract will continue into the Spring of 2012.

The Authority's long term cooperative agreement with Homestake Mining Company of California continues. The Authority agrees to combine Homestake's wastewater from Grizzly Gulch with the mine wastewater, as well as treat, and discharge the water. For the first year of this agreement, Homestake agreed to pay the Authority an amount ranging from \$.58 to \$.84 per 1000 gallons based on an average total gallons treated per minute per month. Revenue from this agreement for the first year was \$394,510. This negotiated treatment price will be renegotiated once per year for the length of the contract. The negotiated price was renewed for the second year. Estimated revenue for the upcoming year is at \$350,400; somewhat lower than last year's actual due to less water of Homestake's to be treated. The term of the contract runs to September 30, 2020.

8. CONSTRUCTION WORK IN PROGRESS

The Authority accumulates the costs of construction projects in Construction Work in Progress until such time as the projects are completed and/or placed in service. Some of the ongoing improvement projects are capitalized as they progress. The \$726,213 of construction work in progress at June 30, 2011, consisted of accumulated costs on the Davis Outfitting project totaling \$702,619 in addition to \$23,594 of accumulated costs towards a water system at the science labs. The costs accumulated consist of amounts under contract in addition to materials and other expenses purchased by the Authority. The remaining commitment on existing contracts at June 30, 2011 is approximately \$7,580,574. These commitments are to be paid for using current accumulated funds that have been redirected from the Sanford Gift #2.

9. CONTINUING OPERATIONS

In the summer of 2010 a proposal was submitted by UC Berkeley to the National Science Foundation (NSF) which would have provided interim funding to operate the current Lab structure and other Authority expenses from April 2011 through January 2012. The NSF rejected the proposal on the grounds that the Department of Energy should assume stewardship of the project. Since the Department of Energy (DOE) did not have operational funds to support the lab in federal year 2011, the NSF provided \$4 million to

cover continued efforts for pumping water and other operations at the Authority for this term. The DOE has indicated strong support of the science projects at the Sanford Underground Research Facility, but because of the Continuing Resolution in Congress in the fall of 2011, the agency was prevented from funding what is considered to be a new project until the budget was approved. The DOE's 2012 budget included \$15 million to fund basic operations at the Lab. The NSF had agreed to fund operations at the Lab until Congress approved the 2012 budget for the Department of Energy. The funding was stipulated month by month at \$1 million per month and continued through January 2012. Finally, with the expiration of the Continuing Resolution in Congress and the approval of the 2012 DOE budget, this agency began funding the Authority in February 2012 to continue through the Federal fiscal year date of September 30, 2012, by way of a subcontract with Lawrence Berkeley National Lab.

Furthermore, the earlier idea to turn the operation of the facility over to an LLC has been abandoned at this time. The DOE has decided to create a contract to operate the Sanford Lab between Lawrence Berkeley National Lab and the South Dakota Science & Technology Authority. An LLC may be necessary in the future, but not at this time.

10. OPERATING LEASE

As previously stated in Note 7, the Authority is leasing a deep level pump system from AmWest, Inc. – Hydro Resources. This leased property is classified as an operating lease. Total expenditures on this lease for the fiscal year ended June 30, 2011 were \$890,000. The agreement will be renegotiated in late December to be continued to approximately late 2013 or early 2014 at which time the Authority should be dewatered to the 7800' level. Even though the current vision of the DOE does not include science labs lower than the 4850' level, dewatering will continue to the 7800' level with the possibility of reengaging the National Science Foundation at a later date. Renegotiations with AmWest, Inc. – Hydro Resources will include the possibility of deploying an additional pump with a lower capacity.

As of June 30, 2011, the Authority had future minimum payments under this operating lease with a remaining term in excess of one year estimated as follows:

2012	\$ 360,000
2013	\$ 360,000

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY**SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

Personal Services	
Employee Salaries	\$ 6,573,331
Employee Benefits	1,525,300
Total Personal Services	8,098,631
Travel	
Meals and Lodging	29,075
Auto and Fleet Services	21,649
Air - Commercial and Charter	17,710
Incidentals to Travel	6,771
Non-Employee Travel	3,246
Meals (Not Overnight)	978
Total Travel	79,429
Contractual Services	
Equipment Rental	1,476,362
Contractual - Other	341,671
Insurance	318,650
Lobbying	204,540
Computer Services	72,359
Telecommunications	51,405
Monitoring and Programming	41,104
Legal Consultant	36,219
Training	22,701
Consultant Fees - Accounting and Auditing	15,556
Risk, Insurance and Consulting	6,812
Promotion and Advancement	5,042
Dues and Memberships	3,348
Total Contractual Services	2,595,769
Supplies, Materials and Other Operating Expenses	
Utilities	2,048,089
Maintenance and Repairs	1,366,792
Other Supplies and Equipment	634,336
Other Expenses	162,324
Office Supplies and Equipment	99,344
Safety	73,742
Licenses and Permits	37,503
Workshop and Registration Fees	8,175
Postage	5,345
Bank Charges	500
Total Supplies, Materials and Other Operating Expenses	4,436,150
Depreciation Expense	1,093,738
Total Operating Expenses	\$ 16,303,717